

# Conn Chem Limited 1972 Annual Report



AR46

# **Conn Chem Limited**

## **Directors**

Gordon Saunders Lang, P.Eng.

James Davidson Lang

Edward Grant Johnston

Edward Wilson Dobson, C.G.A.

Clifford Leonard Mort, P.Eng.

Reuben Lerner, C.A.

Albert Gnat

## **Officers**

Gordon Saunders Lang, P.Eng.

*Chairman of the Board and President*

James Davidson Lang,

*Secretary*

Edward Grant Johnston,

*Vice-President and General Manager*

Edward Wilson Dobson, C.G.A.

*Vice-President of Administration*

*and Finance*

John Kenneth Irvine, B.A.

*Vice-President*

Andries Mulder,

*Vice-President Production*

Guy Richard Gossling, C.A.,

*Treasurer*

## **Transfer Agent**

**and Registrar**

Canada Permanent Trust Company,

Toronto, Montreal, Winnipeg, Regina,

Calgary, Vancouver

## **Auditors**

Thorne Gunn & Co.,

Chartered Accountants, Toronto

## **Head Office**

24 Curity Avenue

Toronto, Ontario

M4B 1X8

## Directors' Report to Shareholders

Your directors are pleased to present your Company's first annual report since the Company was reorganized into its present form and its shares were offered for sale to the Canadian public in April of 1972. The reorganization in March 1972 resulted in a change in the fiscal year end of the company, the sale of assets not directly related to the Company's operations, a change in the Company's capital structure and the elimination of a substantial minority interest in the assets of the Company. As a result of the reorganization information on a comparative basis is not meaningful, except in a *pro forma* manner. Therefore, to assist readers in evaluating the performance of the Company, a comparative *pro forma* consolidated statement of income has been prepared as if the reorganization had taken place at the beginning of the 1971 fiscal year.

*Pro forma* consolidated net income for the 1972 year amounted to \$1,670,773 or 62¢ per share, an all-time high, achieved on sales of \$32,536,090, compared to a net income of \$1,424,090 or 53¢ per share achieved on sales of \$27,445,920 in 1971. Consolidated net income for the year amounted to \$2,240,654 or 89¢ per share including income from extraordinary items of \$723,161 or 29¢ per share, compared to net income in 1971 of \$1,205,965 or 62¢ per share, including extraordinary items of \$170,685 or 9¢ per share. We would like to emphasize that these *pro forma* results should be the basis of comparison of the performance of your Company in future periods. During 1972 working capital increased by \$2,519,737.

Sales in the non-aerosol and paint aerosol divisions showed strong increases. These increases were achieved through established accounts, as well as through an aggressive policy of obtaining new business.

In February of 1972 the manufacturing and packaging facilities of a major marketer were acquired by Chempac Limited, with the result that the non-aerosol division acquired substantial additional business, a new manufacturing facility and modern packaging and handling equipment. This facility has been expanded in 1973 and equipped with modern bulk handling systems, automated packaging equipment as well as modern pollution controls, and has enabled the discontinuance of the leased facilities at Sorauren Avenue. This has resulted in greater efficiency and lower operating costs, since all of the Company's household powder products are now manufactured in this facility.

Chempac's liquid filling operations have increased substantially in volume, and new equipment is on order and is expected to arrive in June of 1973. This new filling and compounding equipment will increase capacity and efficiency.

In 1973 the Company integrated the production facilities of a major cosmetics marketing corporation within its various divisions. This additional business is expected to contribute to an increase in the Company's earnings during the 1973 year, especially in the third and fourth quarters, since the majority of the merchandise produced is marketed during the Christmas season.

The aerosol paint manufacturing and packaging operations have performed ahead of projections. To enable K-G Packaging Limited to keep pace with increased sales, its facilities have been enlarged and the plant is undergoing a further automation program to make it as automated and modern a facility as that operated by Conn Chem.

Sales and profits of Armstrong-Lang Laboratories Limited, a manufacturer of ethical and proprietary drugs, were down slightly. However, it is expected that sales and profits will increase in 1973, since the Company has developed three new products, the manufacture of which was commenced at the beginning of 1973. An additional five products were developed and are currently being tested and it is expected that they will be in production in the last half of this year.

As a result of increased consumer demands for personal hair products, 1972 witnessed an increase in such sales. This increase is expected to continue and it is expected it will contribute to increased sales and profits for the current year.

In April of 1973 the company acquired Peterson/Puritan Canada Limited, which was formerly owned by a United States Company, Peterson/Puritan Inc. Peterson/Puritan Canada Limited, now a wholly owned subsidiary, is in the business of contract production and packaging in aerosol and liquid containers of various consumer products. This acquisition is expected to contribute to increased earnings of the Conn Chem group as well as greater efficiencies in operations.

Concurrently with the acquisition of Peterson/Puritan Canada Limited, the Company entered into a technical assistance agreement with Peterson/Puritan Inc., the world's largest custom manufacturer and packager of aerosol products, with production facilities and associates in the United States, Mexico, Switzerland and Africa. This agreement provides for the exchange from time to time of information relating to new products, production techniques and related matters, and is expected to be beneficial to both parties and to their respective customers.

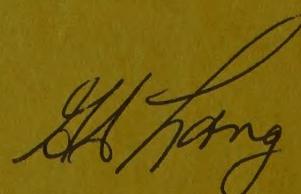
The current year has started well, with sales of \$7,813,197 in the first quarter of 1973, compared to \$7,313,480 for the same period in 1972. Net income before extraordinary items increased to \$385,364, compared to \$331,815 in 1972. This represents net income of 14.3 cents per

share for the first quarter of 1973, compared to 12.3 cents in 1972. It is expected that net income from aerosol sales of personal care products and household products will continue to increase, with plant efficiency and automation contributing significantly to the increased net income.

Although we are pleased with the performance of the past year we are looking ahead to an even better future. Management's attention will be devoted primarily to attaining improved profitability from existing operations and protecting business that has demonstrated a strong profit performance. Management intends to protect the Company's established market position and to continue selected testing of new products and formats for continued growth.

We believe that your Company is in a strong and healthy financial position and that our steady profit performance during the last two years will provide the impetus for continued improvement and growth. We recognize the vital contributions by our employees, and express our gratitude to them. We also wish to thank our shareholders for their support and interest, and our customers and suppliers for the confidence which they have expressed in us. We recognize that if we are to continue to prosper we must meet the demands of our customers, both imaginatively and profitably, this is a challenge we expect to meet.

We wish to extend to you the opportunity to meet the directors and officers of your Company following the annual meeting.



On behalf of the Board of Directors  
Gordon S. Lang, President

Toronto, Ontario  
May 15, 1973

**Conn Chem Limited**

and subsidiary companies

**Pro Forma Consolidated Statement of Income (note 1)****Year Ended December 31, 1972**

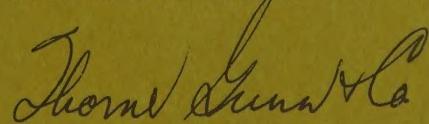
(with comparative figures for 1971)

	<b>1972</b>	<b>1971</b>
Sales	<u>\$32,536,090</u>	\$27,445,920
Income from operations before undernoted items	\$ 3,958,161	\$ 3,574,752
Depreciation	559,956	546,408
Interest on long-term liabilities	23,174	25,892
Remuneration of directors and senior officers of the company	204,500	154,500
	<u>787,630</u>	726,800
Income before undernoted items	<u>3,170,531</u>	2,847,952
Income Taxes		
Current	1,427,100	1,434,500
Deferred (reduction)	87,800	(12,200)
	<u>1,514,900</u>	1,422,300
	1,655,631	1,425,652
Interest of minority shareholders in income of subsidiary company	21,858	1,562
Income before extraordinary item	1,633,773	1,424,090
Income tax reduction of subsidiary company arising from carry-forward of prior years' losses	37,000	
Net income for the year	<u>\$ 1,670,773</u>	\$ 1,424,090
Earnings per share on 2,696,452 shares (note 1)	\$ .62	\$ .53

**Auditors' Report****To the Directors of Conn Chem Limited:**

We have examined the *pro forma* consolidated statement of income of Conn Chem Limited and subsidiary companies for the years ended December 31, 1972 and 1971. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the pro forma consolidated statement of income presents fairly the results of operations of the companies for the years ended December 31, 1972 and 1971, after giving effect to the transactions set out in note 1 to this financial statement.



Thorndike, Gunn & Co.  
Chartered Accountants  
Toronto, Canada  
March 23, 1973

**Conn Chem Limited  
and Subsidiary Companies  
Notes to *Pro Forma* Consolidated  
Statement of Income**

1. Prior to issuing shares to the public under the terms of an underwriting agreement in April, 1972, Conn Chem Limited's assets included an investment portfolio and certain real estate not leased to subsidiary companies. In March, 1972, the Company completed the following transactions:

- a) sold to shareholders its investment portfolio and real estate not leased to subsidiary companies, realizing significant capital gains on the transactions totalling \$686,161 net of income taxes;
- b) acquired by share exchanges the remaining issued shares of the subsidiaries Connecticut Chemicals Limited and Chempac Limited, eliminating significant minority interest in consolidated income.

The *pro forma* consolidated statement of income gives effect to these transactions and to the sale of shares to the public as if they had occurred at the beginning of the 1971 fiscal year by making the following adjustments to the income statements of both years:

- a) deleting all income less expenses arising from the investment portfolio and real estate which was sold in March, 1972;
- b) deleting all capital gains arising from the investment portfolio and real estate since sold;
- c) deleting the minority interest in the income of the subsidiaries, Connecticut Chemicals Limited and Chempac Limited;
- d) calculating earnings per share as if the shares issued in 1972 had been issued at the beginning of the 1971 fiscal year, including imputed interest on the proceeds of the public issue.

**2. Comparative Figures**

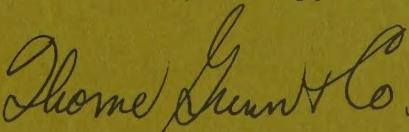
The fiscal year end of Conn Chem Limited was changed from September 30 to December 31 commencing in 1971 to coincide with the year end of the subsidiary companies. The results of Conn Chem Limited are included for the fiscal year ended September 30, 1971.

## Auditors' Report

To the Shareholders of  
Conn Chem Limited

We have examined the consolidated balance sheet of Conn Chem Limited and subsidiary companies as at December 31, 1972 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Chartered Accountants

Toronto, Canada  
March 23, 1973

**Conn Chem Limited**  
 (Incorporated under the laws of Ontario)  
 and Subsidiary Companies

**Consolidated Balance Sheet—December 31, 1972**  
 (with comparative figures at December 31, 1971)

Assets	1972	1971
<b>Current Assets</b>		
Cash	\$ 329,663	
Accounts receivable		
Trade	\$ 5,409,805	4,871,755
Other (note 2)	326,165	283,726
Inventories (note 3)	4,076,018	3,327,686
Prepaid expenses	48,128	52,805
	<u>9,860,116</u>	<u>8,865,635</u>
<b>Investments</b>		
Marketable securities, at average cost (market value \$1,840,000)		1,709,826
Investment in unconsolidated subsidiaries, at lower of cost or net book value (note 1)		<u>167,780</u>
		<u>1,877,606</u>
<b>Other Assets</b>	<b>12,982</b>	<b>21,088</b>
<b>Fixed Assets (note 4)</b>		
Land, buildings and equipment, at cost	7,657,640	7,796,174
Less accumulated depreciation	4,330,499	3,937,191
	<u>3,327,141</u>	<u>3,858,983</u>
	<hr/>	<hr/>
	<b>\$13,200,239</b>	<b>\$14,623,312</b>

Approved by the Board

Director

Director

Liabilities	1972	1971
<b>Current Liabilities</b>		
Banker's acceptance		\$ 1,300,000
Bank overdraft arising from outstanding cheques	\$ 1,160,197	660,048
Accounts payable and accrued liabilities	3,224,567	3,117,533
Income and other taxes payable	382,893	766,608
Principal due within one year on long-term liabilities	69,523	518,247
	<u>4,837,180</u>	<u>6,362,436</u>
 <b>Long-Term Liabilities (note 5)</b>	 508,944	 578,467
 <b>Deferred Income Taxes</b>	 289,800	 151,800
 <b>Interest of Minority Shareholders in Subsidiary Companies</b>	 21,858	 1,496,306
 <b>Shareholders' Equity</b>		
 <b>Capital Stock (note 6)</b>		
Authorized		
4,000,000 Common shares without par value		
Issued		
2,696,452 Common shares (1971, 1,950,000 shares as subdivided)	5,419,842	303
 <b>Retained Earnings (note 7)</b>	 2,122,615	 6,034,000
	<u>7,542,457</u>	<u>6,034,303</u>
	 <u>\$13,200,239</u>	 <u>\$14,623,312</u>
 <b>Long-term leases (note 8)</b>		

**Conn Chem Limited  
and Subsidiary Companies**

**Consolidated Statement of Income  
Year Ended December 31, 1972  
(with comparative figures for 1971)**

	<b>1972</b>	<b>1971</b>
<b>Sales</b>	<b>\$32,536,090</b>	<b>\$27,445,920</b>
Income from operations before undernoted items	\$ 3,958,161	\$ 3,543,914
Depreciation	559,956	573,253
Interest on long-term liabilities	23,174	25,892
Remuneration of directors and senior officers of the company	204,500	154,500
	<b>787,630</b>	<b>753,645</b>
Income before undernoted items	3,170,531	2,790,269
Income taxes		
Current	1,427,100	1,407,475
Deferred (reduction)	87,800	(12,200)
	<b>1,514,900</b>	<b>1,395,275</b>
	1,655,631	1,394,994
Interest of minority shareholders in income of subsidiary companies (note 1)	138,138	359,714
Income before extraordinary items	1,517,493	1,035,280
Extraordinary items (note 9)	723,161	170,685
Net income for the year	<b>\$ 2,240,654</b>	<b>\$ 1,205,965</b>
Earnings per share (note 10)		
Income before extraordinary items	\$ .60	\$ .53
Extraordinary items	.29	.09
Net income for the year	<b>\$ .89</b>	<b>\$ .62</b>

**Conn Chem Limited  
and Subsidiary Companies**

**Consolidated Statement of Retained Earnings  
Year Ended December 31, 1972  
(with comparative figures for 1971)**

	<b>1972</b>	<b>1971</b>
Balance at beginning of year	\$6,034,000	\$6,012,285
Net income for the year	2,240,654	1,205,965
Net income of Conn Chem Limited, October 1 to December 31, 1971 (note 1)		66,057
	<u>8,274,654</u>	<u>7,284,307</u>
Excess of cost over book value at dates of acquiring shares of subsidiaries, written off	2,719,452	1,203,357
Dividends paid (note 7)	3,389,747	39,900
Financing costs less related income taxes	27,496	
Tax paid on undistributed income	15,344	7,050
	<u>6,152,039</u>	<u>1,250,307</u>
Balance at end of year (note 7)	<u>\$2,122,615</u>	<u>\$6,034,000</u>

**Conn Chem Limited  
and Subsidiary Companies**

**Consolidated Statement of Source and Application of Funds  
Year Ended December 31, 1972  
(with comparative figures for 1971)**

	<b>1972</b>	<b>1971</b>
<b>Source of Funds</b>		
Income before interest of minority shareholders and extraordinary items	\$1,655,631	\$1,394,994
Items not involving current funds		
Depreciation	559,956	573,253
Income taxes	124,800	(12,200)
	<u>2,340,387</u>	<u>1,956,047</u>
Proceeds from sale of marketable securities		
less related income taxes	2,167,423	
Issue of shares for cash under an underwriting agreement	1,087,500	
Sale of fixed assets	878,504	20,762
Sale of investment in unconsolidated subsidiaries	167,780	
Other	8,106	
Promissory note payable		125,000
	<u>6,649,700</u>	<u>2,101,809</u>
<b>Application of funds</b>		
Dividends paid	3,389,747	
Additions to fixed assets	627,853	677,097
Reduction in non-current portion of long-term liabilities	69,523	35,853
Financing costs less related income taxes	27,496	
Tax paid on undistributed income	15,344	
Purchase of marketable securities net of disposals		488,846
Reduction attributable to operations of Conn Chem Limited for three months ended December 31, 1971 (note 1)		196,172
Reduction in advances to non-consolidated subsidiaries, net	50,333	
Other	11,700	
	<u>4,129,963</u>	<u>1,460,001</u>
<b>Increase in working capital</b>	<b>2,519,737</b>	<b>641,808</b>
Working capital at beginning of year	<u>2,503,199</u>	<u>1,861,391</u>
Working capital at end of year	<u>\$5,022,936</u>	<u>\$2,503,199</u>

**Conn Chem Limited  
and Subsidiary Companies**

**Notes to Consolidated Financial  
Statements  
Year Ended December 31, 1972**

**1. Basis of Consolidation**

The consolidated financial statement for 1972 and 1971 include all subsidiary companies except for two minor subsidiaries which were disposed of in March 1972 to shareholders at book value and were not part of the manufacturing operations in either year. The company's proportion of the aggregate losses of these subsidiaries was \$84,351 in 1971 and Nil in 1972.

The fiscal year end of Conn Chem Limited was changed from September 30 to December 31 commencing in 1971 to coincide with the year end of the subsidiary companies. The results of Conn Chem Limited for 1971 are included for the fiscal year ended September 30, 1971. The results for the three months ended December 31, 1971 are included in retained earnings.

In March, 1972 the company acquired by share exchange agreements the remaining outstanding shares of two subsidiaries, Connecticut Chemicals Limited and Chempac Limited. The purchase accounting method was used in both cases. The acquisition equation with respect to these transactions is:

Net assets, at the book value of the seller	\$1,612,587
Premium ascribed to goodwill, written off to retained earnings	<u>2,719,452</u>
	<u><u>\$4,332,039</u></u>

Consideration given, in the form of common shares of Conn Chem Limited	<u><u>\$4,332,039</u></u>
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Conn Chem Limited subsequently acquired the assets and liabilities of Connecticut Chemicals Limited, which is proceeding to voluntary dissolution. K-G Packaging Limited is the only subsidiary not now wholly-owned.

**2. Accounts Receivable, Other**

Included in this account are amounts due from directors and officers aggregating \$99,974 (1971, \$15,851), of which \$47,200 has since been received.

**3. Inventories**

	<u>1972</u>	<u>1971</u>
Raw materials	\$2,832,028	\$2,412,490
Finished goods	<u>1,243,990</u>	<u>915,196</u>
	<u><u>\$4,076,018</u></u>	<u><u>\$3,327,686</u></u>

Raw materials are valued at lower of cost and replacement cost. Finished goods are valued at lower of cost and net realizable value.

#### 4. Fixed Assets

		1972	1971
	Cost	Accumulated depreciation	Net
Land	\$ 158,249	\$ 158,249	\$ 310,049
Buildings	1,873,877	739,121	1,134,756
Leasehold improvements	253,013	151,841	101,172
Machinery and equipment	5,103,025	3,244,654	1,715,008
Automotive equipment	269,476	194,883	74,593
	<b>\$7,657,640</b>	<b>\$4,330,499</b>	<b>\$3,327,141</b>
			<b>\$3,858,983</b>

#### 5. Long-Term Liabilities

		1972	1971
Deferred accounts payable, due \$15,682 annually December 31, 1973 to 1980, without interest		\$125,498	\$125,498
7% mortgage, due July 15, 1979 payable in monthly blended instalments of \$3,573		226,341	252,607
Chattel mortgage, due December 1979 payable \$1,980 annually, interest waived		13,860	15,840
Promissory note, payable \$15,625 annually December 31, 1973 to 1980, without interest		125,000	125,000
7 1/4 % mortgage, due March 15, 1981 payable in monthly blended instalments of \$1,176		87,768	95,314
Owing under share purchase agreements, due in 1972			482,455
Less principal included in current liabilities		<b>578,467</b>	<b>1,096,714</b>
		69,523	518,247
		<b>\$508,944</b>	<b>\$578,467</b>

#### 6. Capital Stock

By certificate of amendment dated March 21, 1972 the 1,951 unissued preference shares were cancelled, the 303 issued common shares then outstanding were subdivided into 1,950,000 common shares without par value and the 69,697 unissued common shares were subdivided into 2,050,000 common shares without par value.

Shares issued during 1972 were as follows:

	Number of Shares	Consideration
In exchange for the balance of the issued shares of Connecticut Chemicals Limited	550,000	\$3,972,039
In exchange for the balance of the issued shares of Chempac Limited	46,452	360,000
For cash under an underwriting agreement	150,000	1,087,500
	<b>746,452</b>	<b>\$5,419,539</b>

Options have been granted under an employees' stock option plan to purchase 40,000 shares at \$7.00 per share until April 27, 1977.

## 7. Retained Earnings

The dividends of \$3,389,747 were paid prior to the shares of the company being sold pursuant to the underwriting agreement (note 6).

One result of the winding up of Connecticut Chemicals Limited is the creation in Conn Chem Limited of a capital surplus for income tax purposes which, on distribution, would be tax-free to shareholders of Conn Chem Limited, subject to a corresponding reduction in the shareholders' cost base of their shares.

## 8. Long-Term Leases

Property leases entered into by the subsidiaries of Conn Chem Limited extend into the year 1982, the annual rental for which is \$49,920 exclusive of taxes, insurance and occupancy charges. The total minimum rentals under these leases amount to \$310,720. The company has entered into a long-term equipment lease terminating in 1980, the annual rental for which is \$21,000. The total minimum rental under this lease is \$168,000, unless the company exercises a purchase option available in 1976 in the amount of \$100,000.

## **9. Extraordinary Items**

Extraordinary items are as follows:

	<b>1972</b>	<b>1971</b>
Gain on sale of marketable securities less related income taxes in 1972	\$457,596	\$170,685
Gain on sale of property less related income taxes	228,565	
Income tax reduction of subsidiary company arising from carry-forward of prior years' losses	37,000	
	<b>\$723,161</b>	<b>\$170,685</b>

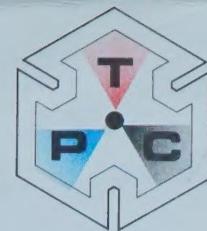
## **10. Earnings per Share**

The company has used the weighted average outstanding shares method to calculate earnings per share.

Fully diluted earnings per share in 1972 after given effect to share options granted under the employee stock option plan is 60¢ per share on income before extraordinary items and 88¢ per share on net income for the year.

## **11. Change of Name**

By certificate of amendment dated March 21, 1972 the company's name was changed to Conn Chem Limited from G.S. and J.D. Lang Limited.



**Conn Chem Limited**  
INTERIM REPORT to SHAREHOLDERS  
for six months ended June 30, 1972

## Dear Shareholders:

It is with pleasure that we submit this report in respect of the operations of Conn Chem Limited and subsidiary companies for the six months ended June 30, 1972.

Conn Chem became a public company in April, 1972 and at that time certain fixed assets not related to the Company's operations and a portfolio of marketable securities were sold to shareholders. In addition, upon going public, a large minority interest in subsidiary companies was exchanged for capital stock of Conn Chem Ltd. The only meaningful comparison of operating results for the six months ended June 30 in 1972 and 1971 is to eliminate from the 1971 financial results the minority interest in subsidiary companies since removed, the net income and capital gains arising from the investment portfolio since sold, and the results of subsidiary companies since disposed of.

In the first six months of the current fiscal year, Conn Chem Limited recorded sales of \$15,596,454, an increase of 23.7% over sales of \$12,613,685 achieved in the same period in 1971. Income before extraordinary item for the six month period ended June 30, 1972 increased 29.2% to \$755,079 or 28¢ per share from \$584,472 or 22¢ per share in the first six months of 1971, before giving effect to income tax reductions. After giving effect to income tax reductions, earnings per share for the first six months increased to 29¢ in 1972 from 22¢ in 1971, an increase of 31.8%. Earnings per share are calculated on the number of shares outstanding at June 30, 1972. The proceeds received by the Company from the underwriting had had an insignificant effect on the earnings of the Company for the six months ended June 30, 1972.

All divisions showed an improvement in sales in the first six months of this year over the same period in the previous year, with strongest increases recorded in sales of aerosol paint and non-aerosol products. The acquisition in February 1972 of non-aerosol manufacturing and packaging facilities and a related production contract for consumer household products and cosmetics contributed to this sales increase. These facilities are currently being expanded to accommodate increased customer demand and to consolidate production of an existing non-aerosol plant into these expanded facilities. In the near future, plans will be finalized for the expansion of our aerosol paint manufacturing and packaging facilities, a major expansion of liquid filling and drug manufacturing and packaging operations. In July of this year, Conn Chem Limited concluded arrangements with a major cosmetics marketing corporation to manufacture and package that corporation's products. It is anticipated that these developments will have beneficial impact on earnings early in 1973.

General aerosol and pharmaceutical manufacturing and packaging operations demonstrated continued gains as a result of previous acquisitions and further automation of production facilities.

Although we expect sales in the second half of the current fiscal year to exceed those of the first six months as a result of the developments referred to above and the historical tendencies toward higher sales volume in the second half attributable to the Christmas retail trade, the gains in sales and earnings for the first half of 1972 were made under economic circumstances substantially different from those prevailing in the first half of 1971.

In April 1972, the common shares of Conn Chem Limited were offered to the public. On behalf of the Board of Directors, we would like to welcome these new shareholders and extend our appreciation for their confidence which made this issue a success.

I respectfully submit this report on behalf of the Board of Directors recognizing the immeasurable contribution of our management and employees to these results.

G.S. LANG  
President

August 24, 1972

## CONSOLIDATED STATEMENT OF EARNINGS (Note)

	SIX MONTHS ENDED JUNE 30	
	1972	1971
Sales .....	\$15,596,454	\$12,613,685
Income from Operations before undernoted items .....	\$ 1,731,590	\$ 1,525,017
Depreciation .....	248,190	253,932
Interest on Long Term Liabilities .....	10,870	12,950
	259,060	266,882
Income before Income Taxes, Minority Interest and Extraordinary Item .....	1,472,530	1,258,135
Income Taxes .....	714,000	679,000
	758,530	579,135
Minority Interest in Net Income (Loss) of Subsidiary Company .....	3,451	(5,337)
Income before Extraordinary Item .....	755,079	584,472
Income Tax Reduction Realized on Carry-Forward of Prior Period's Loss .....	23,000	—
	\$ 778,079	\$ 584,472
<b>EARNINGS PER SHARE</b>		
Income before Extraordinary Item .....	.28	.22
Extraordinary Item .....	.01	—
	\$ .29	\$ .22
<b>NET INCOME FOR THE PERIOD</b> .....		

## NOTE: Statement of Earnings

Conn Chem Limited became a public company by Articles of Amendment dated March 21, 1972 and material changes relating principally to minority shareholdings, portfolio investments and real estate holdings were made about that time. Consequently, the 1971 comparative figures above have been prepared on a pro forma basis reflecting retroactively the changes referred to above.

The above figures are subject to year-end audit and adjustment.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS  
Six Months ended June 30, 1972

## SOURCE OF FUNDS

Operations		
Net Income for Period .....		\$778,079
Items not involving Current Funds		
Minority Interest in Net Income of Subsidiary .....	3,451	
Depreciation .....	248,190	\$ 1,029,720
Sale of Fixed Assets – Note 1 .....		896,760
Sales of Marketable Securities – Note 1 .....		2,424,925
Sale of Common Shares .....		1,087,500
Sale of Shares of and Loan Receivable from Unconsolidated Subsidiaries .....		167,780
Other Assets .....		61
		5,606,746

## APPLICATION OF FUNDS

Dividends Paid – Note 2 .....		3,405,091
Additions to Fixed Assets .....		338,746
Purchase of Marketable Securities .....		188,503
Reduction in Non-Current Portion of Long-Term Liabilities .....		18,788
		3,951,128

INCREASE IN WORKING CAPITAL .....		1,655,618
WORKING CAPITAL AT BEGINNING OF PERIOD .....		2,503,199
WORKING CAPITAL AT END OF PERIOD .....		\$ 4,158,817

NOTE 1: On March 20th, 1972 just prior to the Public Stock offering marketable Securities and certain fixed assets were sold to the Shareholders for cash.

NOTE 2: A Dividend was paid to these same shareholders on March 21, 1972.

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